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ABSTRACT

Concerns that students and parents have about college tuition are addressed. The first section, "Why Tuition Is Up," lists six reasons for high college costs and explains why these trends are not likely to change within the next few years. The next section, "What Colleges and Universities Are Doing about Rising Tuition," explains that tuition pays only part of what it costs an institution to educate a student and suggests ways to finance a degree. The concluding section, "Why Your Tuition Investment Is a Wise One," indicates that tuition is not merely an expense for something intangible but is a real investment in the future. The reasons offered for high tuition costs are as follows: (1) colleges are trying to compensate for faculty members' losses in real income; (2) costs over which colleges have no control are soaring; (3) colleges now are largely on their own in narrowing the technological gap with industry; (4) being nonprofit does not save higher education from paying taxes; (5) the higher costs of making capital investments put the pressure on colleges and universities; and (6) tuition revenues have had to cover a larger share of costs. It is noted that public institutions receive about 15% of their income from tuition, compared to 40% for private institutions. (SW)

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The Tuition Booklet

Why Tuition Is Up

What Colleges and Universities Are Doing About It

And Why Your Tuition Investment Remains A Wise One

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College and university tuitions have increased dramatically in the last four academic years, soaring more than 50 percent from 1980-81 to 1984-85 even though overall inflation rates have declined by almost seven percent. *Why?*

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No decision on campus receives more attention than the one about setting tuition. Trustees, presidents, and administrators clearly prefer to hold the line on tuition but, at most institutions, they are being forced to authorize increases and sometimes substantial ones. *Why?*

■

Parents and students are having a difficult time financing a college education. *Where can they turn?*

■

Many people are beginning to wonder, considering the high cost of a college education, if it's really worth the money. *Is tuition still a wise investment?*

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The answers to these tough questions can't be sugarcoated. The Association of Governing Boards of Universities and Colleges offers this *Tuition Booklet* in an effort to *begin* to answer the very legitimate concerns students and parents have about tuition. The information here is based on a variety of sources, including an *AGB Reports* article by Carol Frances.

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Members of AGB can purchase quantities of the *Tuition Booklet* for distribution to students, parents, faculty, alumni, and other constituents. The costs are: 50 cents each for quantities up to 999; 40 cents each for quantities from 1,000 to 4,999; 30 cents each for quantities from 5,000 to 9,999; and 20 cents each for quantities of 10,000 or more. To place your order, write or call AGB.

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Why Tuition Is Up

Although overall inflation rates have slowed considerably, colleges and universities still suffer from and are trying to make up for cost increases that occurred over the past 10 to 15 years, including expenses that these institutions deferred during the years of high inflation. Here are some examples:

1. Colleges and Universities Are Trying To Compensate for Faculty Members' Losses in Real Income.

From the early 1970s to 1980, as expenses over which higher education had no control skyrocketed, colleges and universities balanced their budgets primarily by holding down faculty salary raises—costs the institutions could control—to rates considerably below inflation. As a result, faculty members lost more than a fifth of their purchasing power by the early 1980s.

Colleges and universities now face one of three situations: (1) a permanent reduction in the economic status of their employees, (2) a loss of the better faculty members as they move to higher paying institutions or to jobs in industry, (3) a period of compensatory salary increases.

Colleges and universities have, for the most part, wisely chosen the third course of action, trying to increase faculty salaries at catch-up rates that exceed increases in the Consumer Price Index (CPI), that raise overall costs, and that lead to higher tuitions.

2. Costs Over Which Education Institutions Have No Control Are Soaring.

Although *overall* inflation increases have become relatively modest, certain *specific* cost factors have scored big price hikes—and some continue to do so. Colleges and universities are energy-intensive and labor-intensive, and costs related to these two areas have undergone massive increases in the past decade or so. In addition to energy and labor,

- books and periodicals used in higher education increased almost 150 percent during the last ten years;
- supplies and materials increased by more than 120 percent;
- services provided by outside contractors doubled in cost from 1974 to 1984;
- and the costs of replacing outdated equipment also have doubled in the last decade.

3. Colleges and Universities Now Are Largely On Their Own in Narrowing the Technological Gap With Industry.

In the past, much advanced equipment was purchased by higher education institutions under federal research grants and contracts, but as federal research funds have declined in constant dollars or are being spent in industry instead of academia, colleges and universities are faced with financing an increasing share of their own research and purchasing on their own the kind of new equipment that will make higher education technologically current. In the last 20 years, the federal share of money for research and development plant expenditures in higher education has dropped from 30 percent to 12 percent. Tuition is being called upon the fill at least a portion of that gap.

4. Being Nonprofit Doesn't Save Higher Education From Paying Taxes.

The Social Security tax more than tripled between 1974 and 1984. With the increase in the tax base and the tax rate, the maximum tax paid by employers for each employee increased from $772 to $2,646 during the decade.

Because colleges and universities are labor-intensive, they pay high employment taxes in relation to their total revenues. In fact, employment taxes that campuses pay might well exceed the total of employment taxes plus income taxes paid by less labor-intensive firms that have ways to shelter income.

5. The Higher Costs of Making Capital Investments Put the Pressure on Colleges and Universities.

On many campuses, facilities are two-to-three decades old and in need of substantial repair and renovation. Energy conservation measures and retrofitting require capital up-front. Implementing government-mandated requirements also has necessitated investments—to build women's athletic facilities and to provide access to the handicapped, for example. Practically no outside funds have been available to educational institutions to cover such costs.

When traditional sources of funds for capital investment—state appropriations, federal research contracts, and private contributions—have not been forthcoming, colleges and universities have had to increase borrowing, not only for investment but for working capital as well.

6. Tuition Revenues Have Had To Cover a Larger Share of Costs.

As any business or household knows, if you spend more than you take in, eventually you'll go broke unless you increase revenue or cut costs. Universities and colleges have been cutting costs for years but, for the reasons just explained, cost-cutting is no longer an option most colleges and universities have much control over—which leaves revenue increases as the method to balance budgets. Although most trustees, presidents, and administrators might wish to raise revenue from sources other than tuition, they are being stymied by the following factors:

A. Federal student aid has not kept pace. Federal officials lament the massive increase in federal student aid. But a significant share of the increase is explained by the growth of the special allowance paid to banks on guaranteed student loans. This growth in outlays results from higher interest rates stemming from the interaction of general economic conditions and national economic policies. The money is not paid to students and it does not reduce the cost of college that students have to pay.

Because of shortfalls in federal and state student aid—since 1980, federal student aid (not including guaranteed student loan figures) has decreased six percent in constant dollars—many colleges and universities have had to allocate a greater percentage of their own operating budgets as aid to students; in fact, financial aid is one of the most rapidly growing expenses for independent colleges and universities.

B. Private gifts have not kept pace. Private gifts to colleges and universities have increased substantially but they still account for less than six percent of total revenues (9.3 percent in the independent sector and 2.5 percent in the public sector).

If the new tax laws reducing marginal tax rates and increasing the effective cost of giving to colleges have an adverse effect on private donations, financial pressures on colleges will intensify.

In addition, endowment growth has not been fast enough to keep pace with both enrollment growth and cost inflation.

Faced with these financial facts of life, college and university officials have been forced not only to raise tuitions but also to price room and board and books and other student-related fees and services on a basis that is closer to cost-recovery than it ever has been before.

What Colleges and Universities Are Doing About Rising Tuition

The first thing to keep in mind is that presidents and trustees are being extremely careful in reaching their tuition decisions. Although tuitions might seem as if they rise as regularly as the sun, each increase at each institution is the result of detailed and sometimes agonizing deliberation. Keep in mind also that less money from tuition and fees can force a college or university to cut back on the quality of instruction: faculty members, laboratories, computers. The quality of life for students (housing, art programs, campus enrichment activities) can be lowered when an institution keeps tuition "artificially" low. And think about this: Tuition income helps finance student aid provided by colleges and universities, which means that lower tuitions can hurt needy students who require the aid that higher tuitions can provide. Students pay more for college these days but they also get more than has any other generation of students: better instruction, better equipment, better housing, and better extracurricular offerings.

No student pays the full amount of what it costs to provide a college education.

As high as tuition and fees *and all other student-related* costs are, they represent only a portion—often around 50 percent and frequently less than half—of what an institution has to pay out to provide students with their education. To put it another way: Public institutions receive approximately 15 percent of their income from tuition, while private institutions receive approximately 40 percent of their income from tuition. Colleges and universities make up the difference with income from government (federal, state, local), private sources (gifts, grants, contracts), endowment income, and other sources.

So trustees and presidents already are doing something about tuition: By maximizing income from sources other than students, colleges and universities are ensuring that no student pays the real price of an education—and this is true even for students who pay full tuition without receiving financial aid or scholarship. Considering that about half of all students do receive some sort of grant or loan, this means that their out-of-pocket educational expenses represent a relatively small slice of the true bill. And if the other sources of income that an institution uses had kept pace (see the first section of this booklet), presidents and trustees would've been able to keep tuition even lower.

Still, it is undeniable that the tuition bite is a large and painful one for most families. Recognizing this, many colleges and universities offer a wide range of financial programs that can make paying for a college education manageable:

- Students who excel academically are given scholarships and are so much in demand that some institutions, even those more exclusive and higher priced ones, provide academically accomplished students with what amounts to a free ride.
- In some states, parents of newborns can invest a relatively modest sum with a state agency that will guarantee the children a full four-year education at any of the state's colleges.
- Some individual institutions offer a similar plan, offering parents an opportunity to invest now in a way that guarantees tuition later.
- Some colleges and universities are using tax-exempt revenue bonds to finance low-interest-rate loans for parents and students. Some of these plans are open to families in a wide range of income brackets and allow long-term payback periods. Financing tuition and other college costs becomes, in effect, like financing a mortgage. A few of these innovative long-term loan programs include all college costs, not just tuition.

The point is that colleges and universities stand ready to help parents and students directly and to point them to other agencies that can offer additional assistance. Counselors and financial aid officers are your best source of information in this area, but remember that somewhere out there money (a grant, a scholarship, a loan) is available for a college education. How much and what kind of aid might depend on anything from the student's achievements (scholarship, athletics, music, extracurricular activities) to the family's financial situation to the student's and family's willingness to search and search until financial assistance is found. But it's out there.

Why Your Tuition Investment Is a Wise One

Is a college education worth it?

A generation ago, this question would never have been asked because everyone assumed that a college education was worth the time and effort and money invested in it. Here's why that assumption is still correct:

1. A bachelor's degree is the passport to the better paying, more interesting, and higher status jobs in business, science, and the arts.

The tougher entrance requirements set by employers along with the fact that so many young people do go to college and earn at least a bachelor's degree mean that a college education has become de rigueur—the first rung on the success ladder. Fulfilling a basic requirement may not be the best reason for going to college, but it is a fact of life in the United States today.

2. You get your money back, with interest.

According to generally accepted estimates, the money invested in a college education results in something like a 10 percent annual return (because of better paying jobs open to college graduates). In this sense, the money spent on tuition and related costs is similar to the money you spend on a house: Not only do you get shelter (or, in the case of tuition, an education) but your investment appreciates so that eventually you get all of your money back with interest. Similarly, tuition might more properly be considered a long-term investment (as is a house) that must be financed over the long term.

3. The unexamined life is not worth living. —Plato.

Even if a college education were not required to get a good job (reason #1) and even if a college education did not pay for itself as an investment (reason #2), it still would be worth the money because understanding history, art, science, philosophy, and all the other disciplines that help explain the tapestry of the world and our place in it requires the systematic learning offered by higher education. Without this understanding, we might still be able to get good paying and interesting employment, but life is more than money and work. Higher education helps us appreciate what this *more* is.

As daunting as it is to write those tuition checks, you'll probably find few things during the rest of your life on which money can be better spent.